EXOGENOUS CHANGES

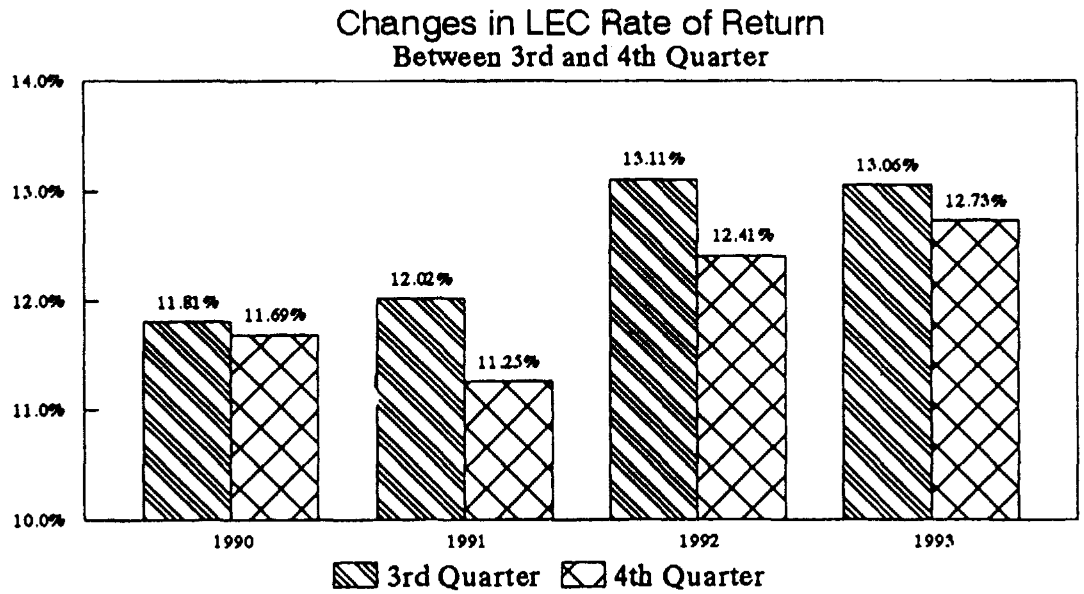
- Additional exogenous changes allowed by the Commission have increased rates by $274.8 million
  - TRS $10.6 Million
  - OPEB $148.3 Million
  - GSF $7.8 Million
  - 800 DB $15.3 Million
  - TAXES $37.4 Million

SHARING

- Sharing should be maintained
  - Without sharing, the Commission lacks any meaningful enforcement mechanism
- The Lower Adjustment Mechanism is redundant
  - LECs can petition for above–cap filings
- Sharing levels should be reset to reflect the current cost of capital

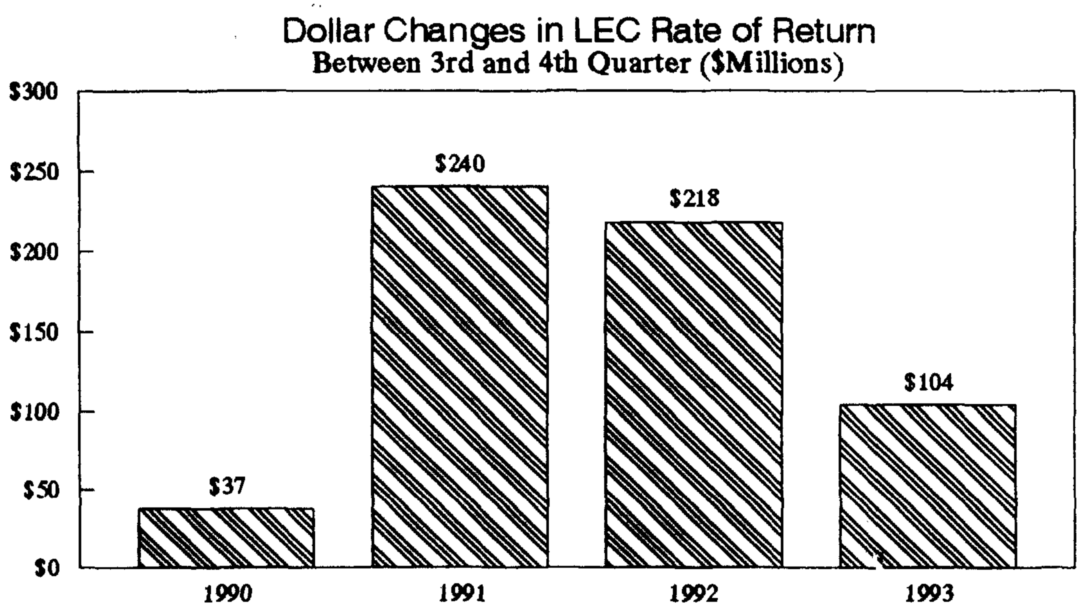
SHARING (cont'd)

- LEC booking of large fourth quarter expenses should be curtailed

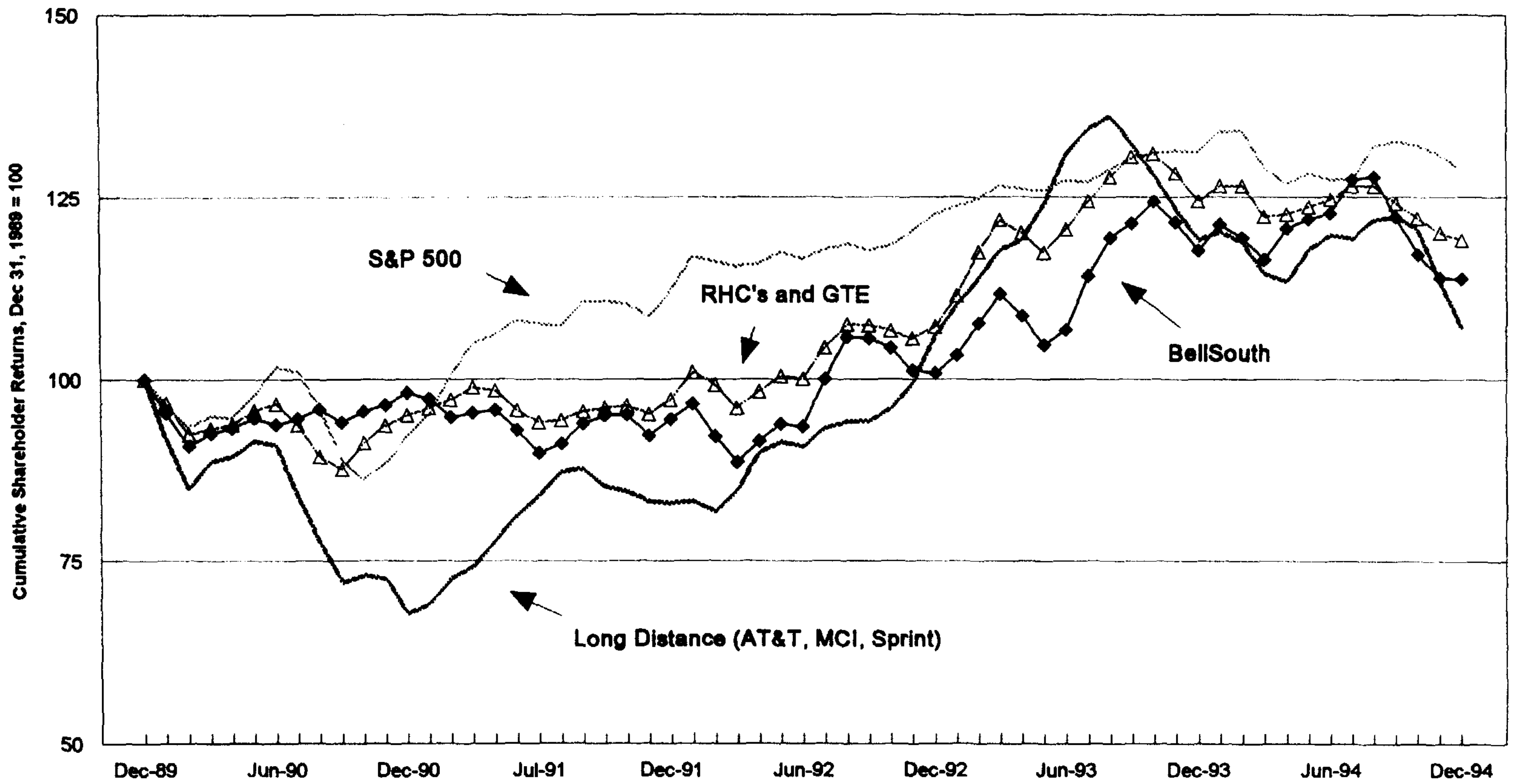


SHARING (cont'd)

- LEC booking of large fourth quarter expenses has changed dramatically since price caps began

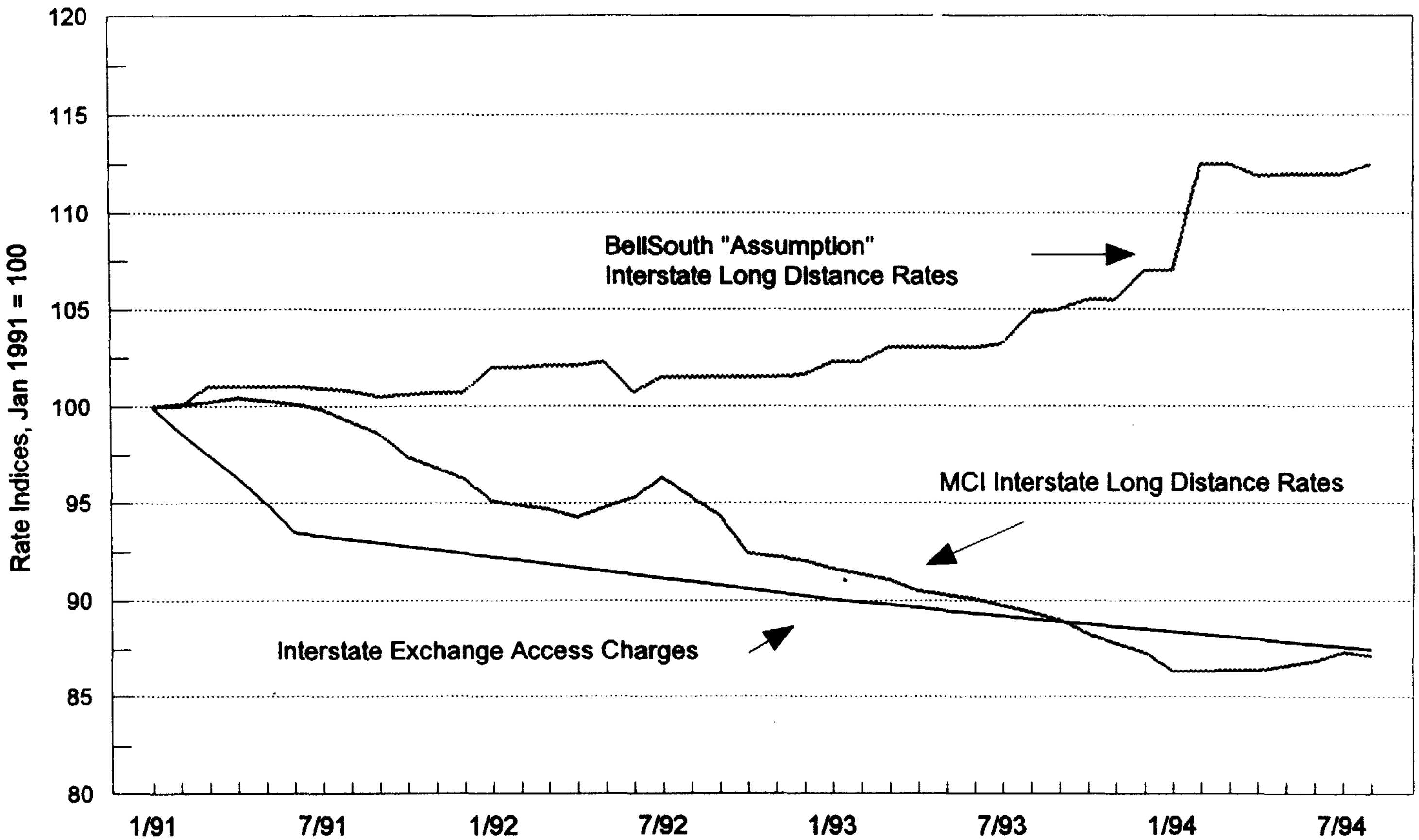


S&P 500 Cumulative Returns outperform BellSouth and Long Distance Companies (AT&T, MCI, Sprint)



Note: Cumulative Shareholder returns are based on market weighted monthly averages of total shareholder returns.

MCI Interstate Long Distance Rates have followed reductions in Interstate Exchange Access Charges



Source: Interstate Exchange Access Charges provided to FCC by BellSouth Corporation

1301 K Street, N.W. 800W
Washington, DC 20005-3333

Telephone 202 414 1000

Price Waterhouse LLP

December 14, 1994

Mr. Douglas L. Maine
Chief Financial Officer
MCI Communications Corporation
1801 Pennsylvania Avenue, NW
Washington, DC 20006

Dear Mr. Maine:

At your request, we have applied the procedures enumerated below to the accompanying RBOCs-1993 Operating Cash Flow Analysis (the "Analysis"). These procedures were performed solely to assist you in assessing the accuracy of the Analysis in relation to the Basis of Presentation described on pages 3, 4, 5 and 7 thereof. The procedures we employed were:

- We agreed information to the public sources of data as outlined on pages 3 and 7;
- We verified the mathematical accuracy of the combined figures, ratios and percentages on the basis of the described presentation and assumptions; and
- We verified allocated costs based upon the assumptions outlined on pages 4, 5 and 7.

These procedures are substantially less in scope than an audit examination, the objective of which is the expression of an opinion on the Analysis. To render an opinion we would have had to audit the reasonableness of the presentation and assumptions and the accuracy of the data underlying the Analysis. Since our procedures were limited as described above, we are unable to and do not express an opinion on the Analysis.

However, based on the application of the procedures referred to above, nothing came to our attention that caused us to believe that the accompanying RBOC-1993 Operating Cash Flow Analysis is not presented in conformity with the Basis of Presentation described on pages 3, 4, 5 and 7 thereof. Had we performed additional procedures or had we made an examination of the Analysis, other matters might have come to our attention that would have been reported to you.

This report is intended solely for your information and should not be used by those who did not participate in determining the procedures.

Yours very truly,

Price Waterhouse LLP

RBOCs- 1993
Operating Cost Flow Analysis

Ref	$M	LOCAL	ACCESS	TOLL	MISC.	TOTAL
(1)	Gross Revenue	34,598	20,989	9,850	6,643	72,080
	Uncollectible Revenues	361	218	103	70	752
	Net Revenue	**34,237**	**20,771**	**9,747**	**6,573**	**71,328**
(2)	Costs (excluding depreciation,interest and taxes)	26,697	6,083	3,303	2,435	38,518
	Operating Cash Flow (EBITDA)	**7,540**	**14,688**	**6,444**	**4,138**	**32,810**
	Operating Cash Flow Margin	**22.0%**	**70.7%**	**66.1%**	**63.0%**	**46.0%**
	Taxes (effective rate of 16.5% on EBITDA)					5,414
	Capital Expenditure (2 year average rate of 44.5% on EBITDA)					14,600
	Available for debt service, investment and dividends.					**12,796**

See detail Cost Allocqation on page 2.

For references and basis of presentation refer to page 3, 4 and 5.

RBOCs - 1993

Operating Cash Flow Analysis

$M	Ref	Local	Access	Toll	Misc.	Total
Net Revenue	(1)	34,237	20,771	9,747	6,573	71,328
Costs (excluding depreciation and amortization) :	(2)					
Marketing	(b) (c) (i)	1,911	N/A	544	159	2,614
Access	(b) (c) (i)	847	N/A	241	0	1,088
Plant Specific, Plant Non-specific & Service	(b) (c) (ii)	18,339	4,807	1,825	1,912	26,883
Executive and Planning, General and Admin.	(b) (d)	5,600	1,276	693	364	7,933
Total Operating Costs		26,697	6,083	3,303	2,435	38,518
Operating Cash Flow (EBITDA)		7,540	14,688	6,444	4,138	32,810
Operating Cash Flow (EBITDA) Margin		22.0%	70.7%	66.1%	63.0%	46.0%

For references and basis of presentation, refer to page 3,4 and 5.

RBOCs -1993
Operating Cash Flow Analysis

Basis of Presentation

Definitions : - Operating Cash Flow - (EBITDA) is defined as net revenue less all operating costs except interest, taxes, depreciation and amortization as reflected in FCC "Preliminary Statistics of Communications Common Carriers" for the year ended December 31, 1993.

- RBOCs - The seven regional Bell Operating Companies comprised of Bell Atlantic, Ameritech, Southwest Bell, US West, Pacific Telesis, Bell South and NYNEX.

Sources of Data:

(1) Gross Revenue and uncollectibles were obtained from FCC "Preliminary Statistics of Communications Common Carriers" for the year ended December 31, 1993 for the 7 RBOCs.

(2) Operating costs were obtained from FCC "Preliminary Statistics of Communications Common Carriers" for the year ended December 31, 1993 for the 7 RBOCs. In addition, regulated and non-regulated costs were obtained from the FCC 43-03 report filed by the RBOCs with the FCC for the period ended December 31,1993.

(3) Dial Equipment minutes from 1992 (the latest available) were obtained from the "Trends in Telephone Service" (TTS) publication from the Industry Analysis Division of the FCC dated May 1994.

(4) Intralata and interlata - intrastate call counts used to allocate intrastate toll minutes in assumption c (ii) were obtained from FCC "Preliminary Statistics of Communications Common Carriers" for the year ended December 31, 1993 for the 7 RBOCs.

RBOCs - 1993
Operating Cash Flow Analysis

Assumptions :

(a) Uncollectibles per the FCC reports were allocated to all service revenues based on the percentage of gross revenue for each service to total revenues.

(b) Non-regulated costs reflected in the FCC 43-03 reports noted in (2) above are assigned to miscellaneous service revenue.

(c) Costs remaining after direct assignment of non-regulated costs to miscellaneous are allocated as follows:

(i) Access expenses and marketing expenses are allocated to local and toll based on the percentages of revenue for each service to total local and toll revenue.

(ii) Plant Specific, Plant Non-specific and Services Expense are allocated to local, toll and access based on the relationship of traffic minutes per the TTS publication as follows:

Local = Local minutes
Toll = 61% of intrastate toll minutes.
Access = Interstate toll minutes + 39% of intrastate toll minutes.

The intrastate toll minutes were allocated to toll and access as follows :

- intralata calls were assigned to toll and the interlata - intrastate calls were assigned to access in order to calculate a call percentage for toll and access. The calculated percentage was applied to the minutes per the TTS to assign minutes to toll and access.

RBOCs - 1993
Operating Cash Flow Analysis

Assumptions (continued) :

Percentages are then multiplied by the total plant specific, plant non-specific and services expense costs to calculate the allocated cost.

(d) Executive and Planning and General and Administrative costs are allocated to local, access and toll based on the percentage of costs allocated to the products in assumptions (b) and (c) above.

RBOCs- 1993
Operating Cost Flow Analysis

Interest Expense Data, Dividend, Capex and Tax Ratios

Dividend Payout Rate (a)

$M	BA	Ameritech	Bell South	NYNEX	PAC Tel	Southwest Bell	US West	Total RBOC
Dividends (i)								
1993	1,157	999	1,307	944	903	804	812	6,926
1992	1,070	943	1,083	856	1,057	796	796	6,601
1991	976	902	1,125	821	1,056	759	756	6,395
Total	3,203	2,844	3,515	2,621	3,016	2,359	2,364	19,922

Average Dividend ($M) = 6,641 $19.922M /3 years
Dividend Payout Rate = 20.2%

Capital Expenditure Rate (a)

$M	BA	Ameritech	BellSouth	NYNEX	PacTel	Southwest Bell	US West	Total RBOC
Additions to PPE (iii)								
1993	2,126	1,711	3,135	2,091	1,722	1,719	2,207	14,711
1992	2,111	1,705	2,762	2,154	1,614	1,830	2,312	14,488
Total	4,237	3,416	5,897	4,245	3,336	3,549	4,519	29,199

Average Capital Expenditure ($M) = 14,600 $29,199/ 2 years
Capital Expenditure Rate = 44.5%

Net Interest Expense (a)

$ M	BA	Ameritech	Bell South	NYNEX	PAC Tel	Southwest Bell	US West	Total RBOC
Net Interest								
1993	442	344	584	501	432	384	392	3,079
1992	450	317	527	502	394	350	367	2,907
1991	503	382	650	555	463	442	452	3,447
Total	1,395	1,043	1,761	1,558	1,289	1,176	1,211	9,433

Average Net Interest Expense ($M) : 3,144 $9,433 / 3 years
Net Interest Expense Rate on EBITDA = 9.6 %

EBITDA Tax Rate (b)

$M	BA	Ameritech	BellSouth	NYNEX	PacTel	Southwest Bell	US West	Total RBOC
EBITDA	5,374	4,571	6,559	5,362	3,191	3,861	3,892	32,810
Depreciation (ii)	2,185	1,790	2,829	2,355	1,677	1,584	1,825	14,245
Interest (ii)	442	344	584	501	432	384	391	3,078
EBT	2,747	2,437	3,146	2,506	1,082	1,893	1,676	15,487
1993 Effective Rate (i)	34.8%	31.9%	35.6%	38.8%	36.3%	30.3%	36.1%	
Calculated Taxes	956	777	1,120	972	393	574	605	5,397
EBITDA Tax Rate	17.8%	17.0%	17.1%	18.1%	12.3%	14.9%	15.5%	**16.5%**

Refer to page 7 for basis of presentation.

RBOCs - 1993
Operating Cash Flow Analysis

Interest Expense Data, Dividend, Capex and Tax Ratios

Basis of Presentation

Sources of Data:

(i) Obtained from individual RBOCs 1993 annual report on form 10K. Note, the effective tax rate for Pacific Telesis is an average of 1992 and 1991.

(ii) Obtained from FCC "Preliminary Statistics of Communications Common Carriers" for the year ended December 31,1993 for all RBOCs.

(iii) Obtained from the additions column of FCC report 43-02 for the respective year.

Assumptions:

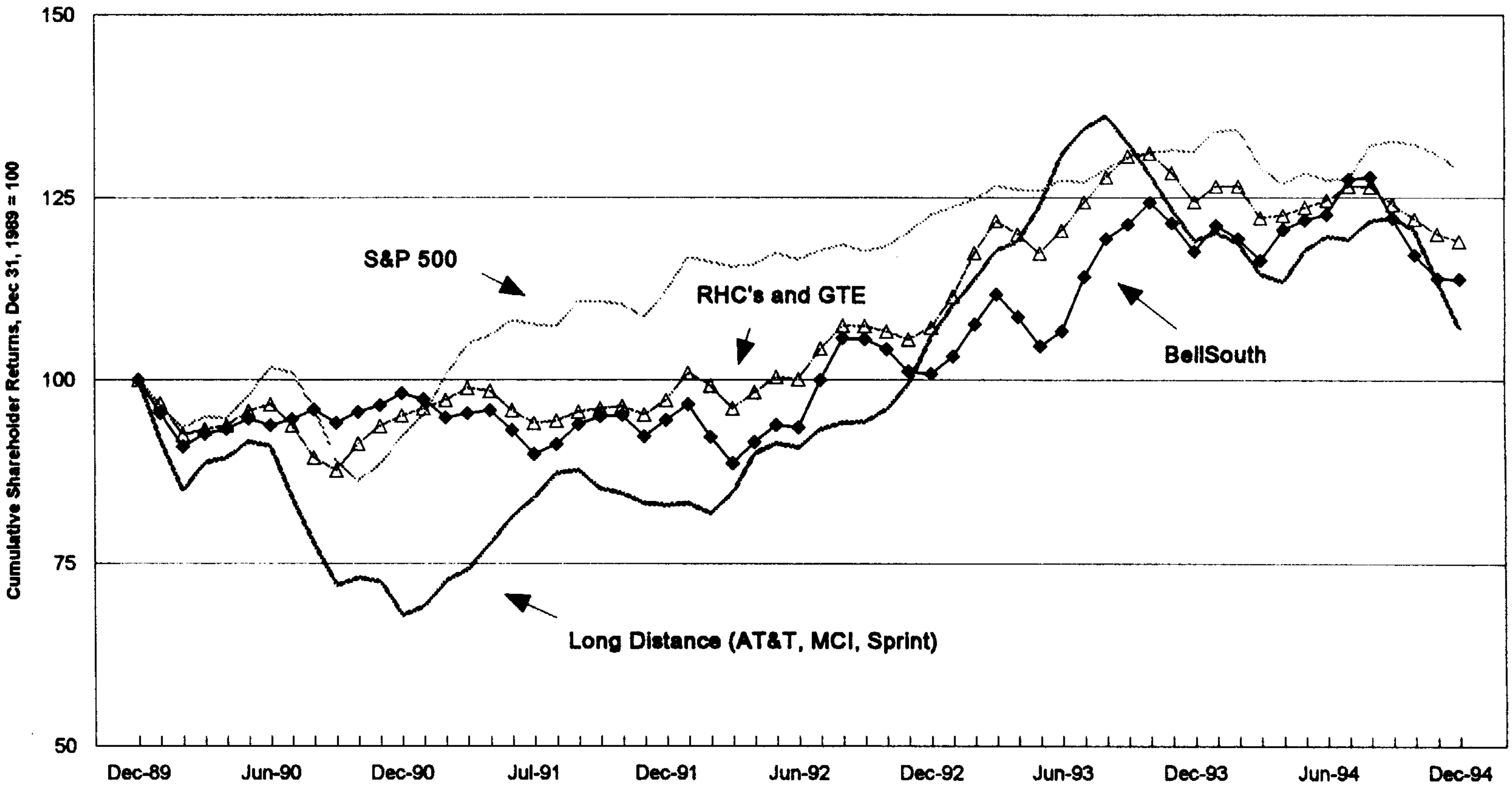
(a) A simple average for dividends paid and capital expenditures was calculated by adding the years of dividend payments or capital additions for the RBOCs and dividing by 2 or 3. Ratios for dividends paid and capital expenditures were then calculated as follows :

Average dividends / EBITDA = dividend paid rate.
Average Capex / EBITDA = capital expenditure rate.

(b) Depreciation, amortization and interest are subtracted from EBITDA to calculate earnings before taxes (EBT). The effective tax rate as obtained in (i) above is applied to EBT to calculate taxes.

To calculate an effective tax rate to be applied to EBITDA, the tax calculated above is divided into EBITDA.

S&P 500 Cumulative Returns outperform BellSouth and Long Distance Companies (AT&T, MCI, Sprint)



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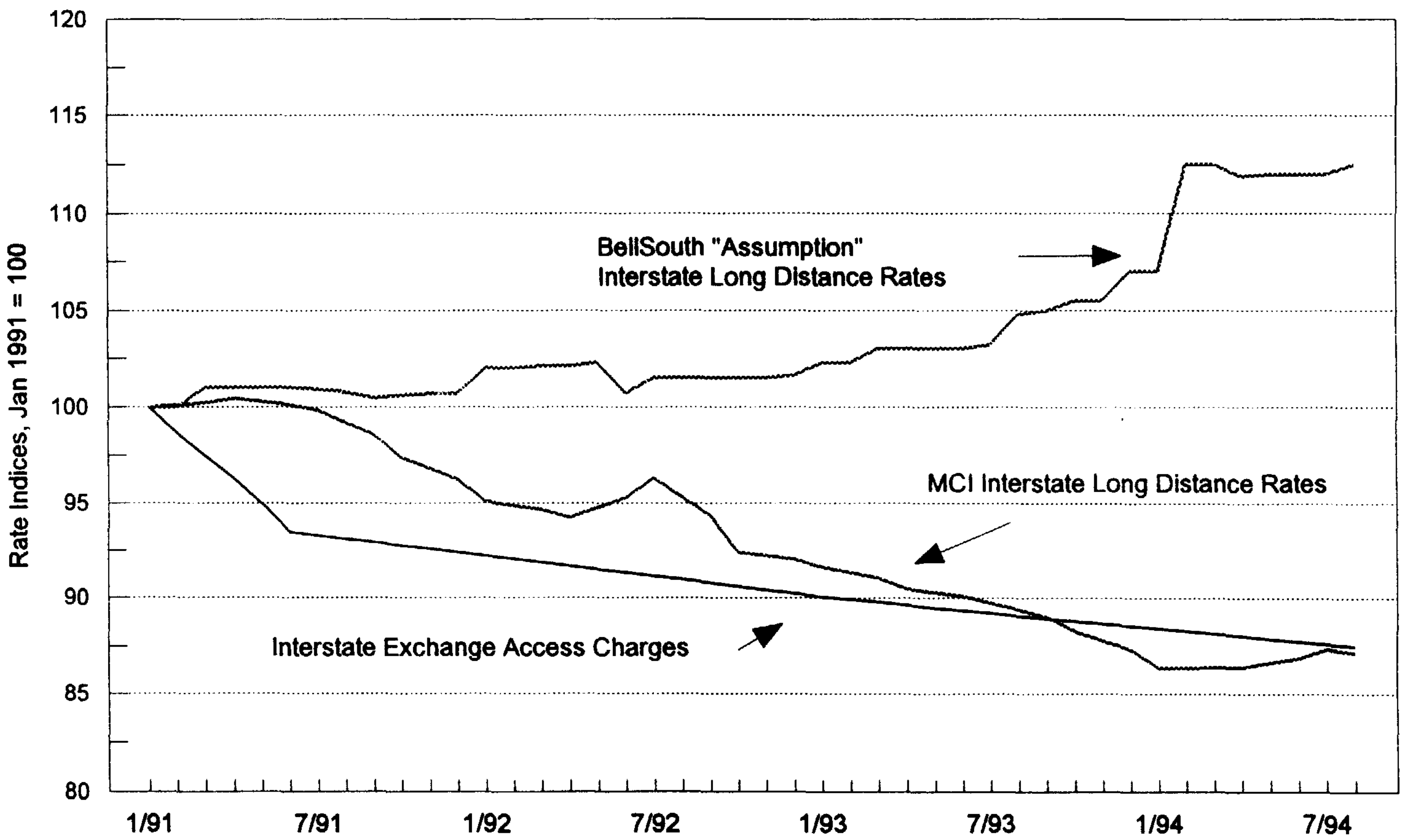

Source: Interstate Exchange Access Charges provided to FCC by BellSouth Corporation